92-1123

No. ____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1992

IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Petitioner,

v.

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, AND N.V. PHILIPS GLOEILAMPENFABRIEKEN
and
WINDMERE CORPORATION,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Should the United States Courts of Appeals routinely vacate district court final judgments at the parties' request when cases are settled while on appeal?

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STATEMENT PURSUANT TO RULE 29.1

Izumi Seimitsu Kogyo Kabushiki Kaisha has no parent or subsidiary Companies (other than wholly owned subsidiaries).

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Petitioner Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") respectfully petitions for a writ of certiorari to review the judgment of the U.S. Court of Appeals for the Federal Circuit ("Federal Circuit") in this case.

OPINIONS BELOW

The opinion of the Court of Appeals for the Federal Circuit is reported at 971 F.2d 728 (Fed. Cir. 1992)(A1-6). The order of the Court of Appeals denying Izumi's petition for reconsideration and suggestion for rehearing in banc is unpublished (A9-10). The judgment of the district court following trial also is unpublished (A7).

JURISDICTION

The Court of Appeals denied Izumi's petition for reconsideration on October 2, 1992. This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED

This petition does not involve interpretation of any constitutional provision, treaty or statute.

STATEMENT OF THE CASE

Izumi manufactures rotary electric razors and has sold them to distributors in the United States, including Windmere and Sears. Suit in the U.S. District Court for the Southern District of Florida involved the claim of the Philips companies[1] ("Philips") against Windmere for unfair competition under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), concerning the configuration of Philips' Norelco® rotary razor (trade dress claim), Philips' patent infringement claim against Izumi and Windmere, and Windmere's antitrust counterclaim against Philips. An indemnity agreement between Izumi and Windmere required Izumi to pay for Windmere's defense of the trade dress infringement and patent claims, and Izumi did so (A14). Windmere undertook the expense of prosecuting its antitrust counterclaim.

Following a trial, remand and a second trial, the Florida district court entered judgment in Windmere's favor on both Philips' trade dress claim and Windmere's antitrust counterclaim A7-8).[2] In particular, the jury found that Philips

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[1] U.S. Philips Corporation, North American Philips Corporation and N.V. Philips Gloeilampenfabrieken.

[2] In the first trial, Philips prevailed on its patent infringement claim against Izumi, but was awarded only $6,500.00 in damages. Izumi did not appeal that judgment.

had failed to establish that its trade dress was non-functional, and, hence, did not possess trade dress rights. On its antitrust counterclaim, Windmere was awarded $89,644,257 in trebled damages, plus attorneys' fees, interest and costs (A7). Philips appealed both verdicts to the Federal Circuit.

On May 6, 1992, after the appeal had been fully briefed, Philips and Windmere entered into a Settlement Agreement (A17-21). Under that Agreement, the parties agreed to exchange general releases. Philips further agreed to pay Windmere $57 million, and Windmere agreed to join Philips in asking the Federal Circuit to vacate the Florida district court's judgments. Indeed, one of the Settlement Agreement's principal objectives was to nullify the Florida judgment:

> It is the intention of all parties to this Settlement Agreement that the Judgment, the opinion and the jury interrogatories on [Philips'] unfair competition claim and Windmere's antitrust claim will be of no force and effect and shall have no precedential or other value, including, without limitation, any effect under the doctrines of collateral estoppel or res judicata.

(A18)

Philips had far more than an academic interest in vacating the Florida judgment through its settlement with Windmere. In 1985, while the Florida action was pending in the district court, Philips brought a similar action for patent infringement and unfair competition against Izumi and another of its distributors, Sears, Roebuck & Co. ("Sears"), in the United States District Court for the Northern District of Illinois ("the Illinois district court"). Following the second jury trial in Florida, Philips' unfair competition claim against Sears in Illinois was held to be barred by collateral estoppel (A30). Thus, Philips clearly sought, through settlement, to eradicate the Florida judgments and thus eliminate its res judicata and collateral estoppel effects in Illinois.

On May 11, 1992, Philips and Windmere jointly moved to dismiss the Federal Circuit appeal as moot and to vacate the Florida judgments ("Joint Motion to Vacate") (A31-35). Fearing that, following vacatur, Philips would seek to revive its unfair competition claims in the Illinois action, Izumi attempted to oppose the Joint Motion to Vacate. However, despite Izumi's active and substantial involvement in the defense of Philips' unfair competition claim against its distributor and indemnitee, Windmere, and despite Izumi's obvious and direct interest in preserving the finality of the Florida judgments, the Federal Circuit held that Izumi did not have standing to oppose the Joint Motion to Vacate as a party to the original district court action, as an affected third party, or as an intervenor (A2-5).

Until the May 6, 1992 settlement agreement between Philips and Windmere, Izumi's interest in defending Philips' unfair competition claim directed against Izumi manufactured razors had been protected by Windmere's defense at trial (which Izumi had fully funded and had the right to exercise sole control) (A11). Nonetheless, the Federal Circuit faulted Izumi for not intervening earlier, and rejected as a basis for intervention Izumi's interest in ensuring that its razors could continue to be sold without interference from Philips:

> We do not discern in Izumi's financial support of Windmere the authority to intervene in this court.... Any financial or commercial interest Izumi might have in the unfair competition claim does not confer standing as a party, on the posture of this case.

(A4)

Although it denied Izumi standing to oppose vacatur or intervene in the proceedings, the Federal Circuit addressed the merits of vacatur. The Federal Circuit recognized that at least four other circuit courts of appeals have declined to vacate judgments merely because parties had settled their disputes

(A5).[3] Nonetheless, the court followed its "general rule" of vacating judgments following settlement.[4] Citing this Court's decisions in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950); *Duke Power Co. v. Greenwood County*, 299 U.S. 259 (1936); and *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, ___ U.S. ___, 111 S. Ct. 1300 (1991), the Federal Circuit held that vacatur was appropriate because all claims on appeal had been rendered moot by settlement. Moreover, even though settlement had expressly not been conditioned on the court granting the motion to vacate, the court further stated: "The parties... are entitled to rely on our precedent" (A6). Izumi petitioned the Federal Circuit for reconsideration and suggested rehearing in banc on October 2, 1992. Both the petition and suggestion were denied (A9).

As a postscript to the Federal Circuit vacatur, Philips moved the Illinois district court to reinstate Philips' unfair competition claim against Sears, arguing that the vacated Florida judgments should no longer have collateral estoppel effect. The Illinois court agreed and reinstated the claim (A36-45).[5]

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[3] E.g., *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3d Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991); *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988); *National Union Fire Ins. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989). The Federal Circuit is joined by the Second Circuit in routinely vacating final judgments following settlement by the parties. *See Nestle Co., Inc. v. Chester's Mkt., Inc.*, 756 F.2d 280 (2d Cir. 1985).

[4] Although conceding that vacatur following settlement is its "general rule," the Federal Circuit attempted to qualify its decision by stating: "We do not hold that vacatur must always be granted, whatever the circumstances" (A6). However, in view of its refusal even to entertain Izumi's opposition to vacatur, it is difficult to imagine a scenario where the Court would not automatically grant vacatur following settlement.

[5] The Illinois district court certified the issue for appeal to the Federal Circuit. That appeal is pending (A46-49).

REASONS FOR GRANTING THE PETITION

A. The Petition Raises An Important Issue

This petition should be granted because it raises an issue of importance to the administration of justice which is the subject of a clear-cut conflict among the circuit courts of appeals. The issue is whether the Federal Circuit's practice of routinely vacating district court final judgments at the parties' request when a case is settled during the pendency of the appeal is proper, even where, as here, a third party affected by the vacatur opposes it. This practice permits unsuccessful litigants to avoid the preclusive affects of final judgments, and transforms the federal courts into instruments for furthering the agenda of private parties.

While the Federal Circuit may desire settlement of appeals, vacatur creates the potential for repeated litigation of issues that would not be retried if the district court judgment were allowed to stand. Where a second lawsuit raising the decided issue is already pending, the Federal Circuit's practice disposes of the adverse judgment so that a losing party such as Philips can seek a second trial on the issue. Allowing private parties to obtain vacatur on demand and to thereby erase judgments that have been entered after careful deliberation by courts and juries has profound implication for the public interest in maintaining finality of judgments. Indeed, scholars have criticized the practice.[6]

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[6] Jill E. Fisch, *Rewriting History: The Propriety of Eradicating Prior Decisional Law Through Settlement and Vacatur*, 76 Cornell L. Rev. 589 (1991); Note, *Avoiding Issue Preclusion: Settlement Conditioned on the Vacatur of Entered Judgments*, 96 Yale L.J. 860, 867 (1987) ("[c]ircumventing preclusion by vacating existing judgments threatens the public interests in finality of judgments, judicial economy, legitimacy of the legal system, and consistency").

The interest of justice is particularly affected when the claims revived through a vacatur are steeped in the public interest, as is the case where a patent or trademark claim is involved. *Blonder-Tongue Labs., Inc. v. University of Illinois Found.*, 402 U.S. 313 (1971); *Park N' Fly, Inc. v. Dollar Park And Fly, Inc.*, 469 U.S. 189 (1985). When a product design is unpatented and legally functional, everyone has the right to use the design. *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141 (1989); *Best Lock Corp. v. Schlage Lock Co.* 413 F.2d 1195 (C.C.P.A. 1969). Thus, under the Federal Circuit's practice, even though a district court may enter final judgment that a patent or trademark is invalid, full and fair competition could be inhibited by fear that such judgment can later be nullified by private agreements. Recently, the district court in *Wang Labs., Inc. v. Toshiba Corp.*, 793 F.Supp. 676, 678 (E.D.Va. 1992), expressed its concern that vacating a finding of patent invalidity without reviewing the merits at the request of parties who settle the case while the appeal is pending may result in an invalid patent being "foisted off on the public and left to distort the market."

The importance of the issue of relitigation of previously decided issues is highlighted by this Court's opinion in *Blonder-Tongue*, in which the Court held that a plaintiff is estopped from reasserting a patent held invalid after a full and fair trial. In reaching its decision on estoppel, the Court reasoned that:

> Permitting repeated litigation of the same issue as long as the supply of unrelated defendants holds out reflects either the aura of the gaming table or "a lack of discipline and of disinterestedness on the part of the lower courts," hardly a worthy or wise basis for fashioning rules of procedure."

402 U.S. at 329, (quoting *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180, 185 (1952)).

The Court also noted the unfairness to the defendant faced with having to litigate an issue already decided:

> In any lawsuit where a defendant . . . is forced to present a complete defense on the merits to a claim which the plaintiff has fully litigated and lost in a prior action, there is an arguable misallocation of resources. To the extent the defendant in the second suit may not win by asserting, without contradiction, that the plaintiff had fully and fairly, but unsuccessfully, litigated the same claim in the prior suit, the defendant's time and money are diverted from alternative uses — productive or otherwise — to relitigation of a decided issue.

Id.

The Court's 1971 *Blonder-Tongue* assessment that a plaintiff's ability to relitigate decided issues burdens both the judicial system and future parties which must defend against plaintiff's revived claims is still correct today. If anything, the high cost of litigation to the respective parties has become a widespread concern.[7] Moreover, the burden on the judicial system of repeated litigation of issues has become an even more important factor as both the volume[8] and the cost[9] of litigation

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[7] *See generally* Louis Harris Assocs., *Procedural Reform of the Civil Justice System*, iv, vi (March 1989, commissioned by The Found. for Change, Inc.) (transaction costs and delay are problems of "moderate to major proportion" and will continue to increase); Terence Dungworth & Nicholas M. Pace, *Statistical Overview of Civil Litig. in the Federal Courts* (1990); James S. Kakalik, *Costs of the Civil Justice System (1983)*.

[8] The current case load crisis and its impact is well recognized. *See, e.g.*, Federal Courts Study Comm., *Report of the Federal Courts Study Comm.*, Admin. Office of the United States Courts (April 2, 1990); Civil Justice Reform Act of 1990, S. Rep. No. 416, 101st Cong., 2d Sess. (1990), *reprinted in* 1990 U.S.C.C.A.N. 6802.

[9] Each day of a civil jury trial has been determined to cost the district court over $1600 per day without a jury and over $2700 a day with a jury. Budget Dev. Branch, Admin. Office of the United States Courts, *Daily Cost of a Civil Jury Trial* (February 12, 1992) (on file with Budget Dev. Branch).

in the federal courts have soared. The Federal Circuit's practice adds to the burden on the district courts by permitting relitigation after substantial court time has already been spent, as it was here, on complex antitrust and unfair competition issues.

Moreover, the practice of routinely granting vacatur of district court judgments following settlement transforms judicial decisions into negotiable commodities, thereby potentially eroding the public's respect for the judicial system, especially where, as here, there is another pending litigation in which the decided issue is again being raised. Although ostensibly justified as a means of achieving judicial economy by encouraging settlement, the rule that allows parties to obtain vacatur on demand may actually have the opposite effect. Such a rule may encourage the parties to avoid early settlement in favor of litigating matters through final judgment, secure in the knowledge that an unfavorable result can be erased through a post-judgment settlement.

It is especially important that this Court provide guidance to the Federal Circuit in the area of vacatur of district court judgments because of the Federal Circuit's exclusive jurisdiction in patent cases. The Court has already recognized the need for such guidance in granting the petition for certiorari in *Morton Int'l, Inc. v. Cardinal Chem. Co.*[10], No. 92-114, on October 5, 1992. The pending *Cardinal* case, scheduled for hearing in February 1993, involves the different, but related, Federal Circuit practice of routinely vacating judgments of patent invalidity upon determination that the patent is not infringed because of

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[10] *Morton Int'l, Inc. v. Cardinal Chem. Co.*, No. 6:83-889-OK, (D.S.C. 1991), *aff'd in part, vacated in part*, 959 F.2d 948 (Fed. Cir.), *reh'g denied*, 1992 U.S. App. LEXIS 7580 (Fed. Cir.), *reh'g. in banc, denied*, 1992 U.S. App. LEXIS 10067 (Fed. Cir.), dissent from denial of suggestions for rehearing in banc, 967 F.2d 1571 (Fed. Cir. 1992) (Nies, C.J.).

the Federal Circuit's perception that a finding of noninfringement "moots" the dispute between the parties. Likewise, the Federal Circuit's practice of vacating district court judgments is based on the Federal Circuit's perception that settlement "moots" the dispute between the parties.

In both the *Cardinal* and present situations, the effect of the Federal Circuit's practice is to eradicate a district court judgment reached after jury or bench trial, and therefore to create the opportunity for the unsuccessful plaintiff to try again before a different jury and a different court, as Philips seeks to do in Illinois after the adverse judgment against it in Florida.

For these reasons, it is evident that the Federal Circuit's vacatur practice presents an important issue of judicial procedure affecting the entire judicial system and the public interest, just as is its vacatur practice applied in the *Cardinal* case now before the Court.

B. The Federal Circuit's Practice is in Conflict With the Practice of Other Circuit Courts

As the Federal Circuit acknowledges, its general rule permitting vacatur on demand conflicts with the decisions of other courts of appeals.[11] The approach to vacatur adopted by the Federal Circuit (and by the Second Circuit as well) has been forcefully rejected by the Seventh Circuit. In *Matter of Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), the court held that, as a general rule, requests to vacate following settlement should be denied. The court emphasized that a judicial decision is a public act which cannot be swept away by private agreement:

[11] See, e.g., *Matter of Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988); *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982) and *National Union Fire Ins. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989).

> When a clash between genuine adversaries produces a precedent, however, the judicial system ought not allow the social value of that precedent, created at cost to the public and other litigants, to be a bargaining chip in the process of settlement. The precedent, a public act of a public official, is not the parties' property.... If parties want to avoid stare decisis and preclusive effects, they need only settle before the district court renders a decision, an outcome our approach encourages.

862 F.2d at 1302.

Other circuits have followed the Seventh Circuit in refusing to automatically vacate final judgments at the parties' request following settlement. *See Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3d Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991).

The Ninth Circuit has declined to vacate a final judgment when doing so would compromise the rights of third parties. In *National Union Fire Insurance Co. v. Seafirst Corp.*, 891 F.2d 762 (9th Cir. 1989), the court reaffirmed the legitimate interest of third parties in the preclusive effects of final judgments. The court refused to vacate a judgment adverse to National Union where National Union had similar actions pending against third parties who had intervened in the motion to vacate for the express purpose of protecting that judgment. In *Ringsby Truck Lines, Inc. v. Western Conference of Teamsters*, 686 F.2d 720 (9th Cir. 1982), the court declined to adopt an absolute rule either prohibiting or permitting vacatur. Instead, the court balanced "the competing values of finality of judgment and right to relitigation of unreviewed disputes," 686 F.2d at 722, and declined to vacate a judgment that had already been given collateral estoppel effect in a second action.

There is thus a clear-cut conflict among the circuits regarding whether vacatur should be routinely granted following set-

tlement. Under the present state of the law, whether or not a party is able to eradicate unfavorable final judgments through settlement depends on such variables as where their case was tried, or whether the Federal Circuit's jurisdiction has been invoked by the presence of a patent claim. Review by this Court is thus necessary to bring about uniformity among the circuits regarding this important issue.

C. The Federal Circuit's Practice Conflicts With Precedent of this Court, and the Court Should Grant The Petition in Supervision of the Federal Circuit

The Federal Circuit's practice of vacating district court judgments at the request of parties settling the appeal is based on a misperception and misapplication of the decision of this Court in *United States v. Munsingwear, Inc.*, 340 U.S. 36 (1950), and conflicts with the Court's decision in *Karcher v. May*, 484 U.S. 72 (1987). The Federal Circuit has interpreted *Munsingwear* as announcing a "mootness" doctrine under which a voluntary settlement between parties to an appeal moots the controversy between them even though final judgment has been entered by the district court. The Court should grant the petition so that the application of the doctrine of mootness to post-judgment settlements can be clarified and so that guidance can be provided to the Federal Circuit, as well as the other circuit courts of appeal, as to the proper application of mootness.

Munsingwear did not involve a motion to vacate. The *Munsingwear* appeal concerned proper pricing for a regulated product and the controversy became moot when the product was deregulated. 340 U.S. at 37. Significantly, the mootness involved in *Munsingwear* was caused by an action not attributable to the parties. In that context, the Court noted that vacatur is proper "to prevent a judgment, unreviewable because of mootness, from spawning any legal consequences." *Id.* at 41. The justification for the Court's statement was the reluctance to bind

a party based on a prior judgment when the party has been foreclosed from challenging the judgment on appeal.

In *Karcher*, the Court made clear that the mootness justifying vacatur after appeal was mootness arising from "happenstance" beyond the parties' control. *Karcher* involved a challenge to a New Jersey statute requiring a moment of silence prior to the start of the school day. The statute was defended by the then-presiding speaker of the New Jersey assembly and the president of the state senate ("the appellants"). 484 U.S. at 75. The district court declared the statute unconstitutional and the court of appeals affirmed. *Id.* at 75-76. Although the legislators lost their posts as presiding officers shortly after the decision of the court of appeals, they nonetheless sought review of that decision in this Court. The new presiding officers, however, informed the Court that they desired, on behalf of the legislature, to withdraw the appeal. *Id.* at 76. On these facts, the Court dismissed the appeal for want of jurisdiction, but refused to apply *Munsingwear* and vacate the lower court judgments because "th[e] controversy did not become moot due to circumstances unattributable to any of the parties." *Id.* at 83.

The Federal Circuit did not discuss or cite *Karcher*, but instead relied on *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, ___ U.S. ___, 111 S.Ct. 1300 (1991), as supporting its practice of vacating judgments following settlement. *City Gas* is a memorandum case in which the Court granted certiorari, vacated the judgment and remanded to the court of appeals with direction to dismiss. Apparently, this action was prompted by a settlement reached while the petition for certiorari was pending. However, this Court's memorandum opinion does not discuss the nature of the settlement, whether any controversy remained as in the present case, or the *Karcher* analysis. *City Gas* is neither an express nor implicit endorsement of the Federal Circuit's practice of vacating judgments following settlement. Nor is it a retrenchment from the principle explained in *Mun-*

singwear and *Karcher* that vacatur is justified when a case becomes moot due to happenstance, rather than by actions attributable to the parties.

The antitrust and trade dress rights issues that were the subjects of the Florida district court final judgment in the present case were not rendered moot by "happenstance" or by "actions unattributable to the parties." Rather, whatever mootness has resulted from the Philips/Windmere settlement is mootness manufactured by the parties for the purposes of expunging a holding unfavorable to Philips and reviving Philips' ability to assert its trade dress claim against Izumi and its customers. As explained by *Karcher*, the *Munsingwear* decision does not support the Federal Circuit's practice of vacating district court judgments as moot simply because the parties voluntarily settle the case on appeal. Moreover, where, as here, the settlement which formed the basis for vacatur was unconditional, mootness is not a proper justification for vacating the district court judgment. Such a case is no more moot than in any other circumstance where a party chooses to abandon its claim or to forego its appeal. *See National Union*, 891 F.2d at 766; *Memorial Hosp.*, 862 F.2d at 1301.

D. Vacatur Here Is Leading Directly to Relitigation In the Courts of a Previously Decided Issue and Izumi Should Be Permitted to Challenge Vacatur

Izumi's concern that vacatur will lead to wasteful and duplicative relitigation is far from hypothetical or speculative. Philips has already successfully reinstated a claim of trade dress infringement against Izumi's manufactured razors that previously had been held barred by the recently vacated Florida judgment. Accordingly, this case presents the unusual circumstance wherein a third party has an immediate and direct interest in challenging the propriety of granting vacatur following settlement.[12]

[12] Ordinarily, when parties to a litigation settle their disputes following judgment and jointly seek vacatur, no third party has a realized, present interest in challenging vacatur. Moreover, where such affected third parties assert their interests, other cases have allowed intervention. *See National Union*, 891 F.2d at 764 (non-parties who stood to benefit from a final judgment's preclusive effect were permitted to intervene to oppose vacatur).

Under the present circumstances, the Federal Circuit should have held that Izumi was entitled to intervene in the appeal for the purpose of opposing vacatur.[13] Accordingly, Izumi is entitled under 28 U.S.C. § 1254(1) to seek review of the Federal Circuits' holding that Izumi lacked standing to challenge the joint motion to vacate. *See e.g., United Auto Workers v. Scofield*, 382 U.S. 205 (1965); *Banks v. Chicago Grain Trimmers Ass'n, Inc.*, 390 U.S. 459 (1968), *cert. granted*, 389 U.S. 813 (1967) (Petitioner granted leave to petition for certiorari as an intervenor, where petitioner was not a party to appellate court proceeding but appellate decision adversely affected petitioner's interest.)

Izumi's interest in the transaction underlying the judgment below — the sale of Izumi-manufactured razors — is direct, substantial and compelling. It is further clear that Izumi's interests, while fully protected throughout the defense of Philips' unfair competition claim, were abandoned when Windmere reached a financial agreement on its own with Philips, and joined in the Joint Motion to Vacate the district court judgment.

Finally, Izumi's motion to oppose vacatur was timely; it sought to intervene promptly following the filing of the Joint

[13] *Cf.* Fed. R. Civ. P. 24(a), which provides in relevant part:

> **Intervention As Of Right.** Upon timely application, anyone shall be permitted to intervene in an action... (2) When the applicant claims an interest relating to the property or transaction which is the subject of the action and the applicant is so situated that the disposition of the action may as a practical matter impair or impede the applicant's ability to protect that interest, unless the applicant's interest is adequately represented by existing parties.

Motion to Vacate. The Federal Circuit failed to recognize properly that Izumi's unique role and interest in this litigation provides it standing to intervene for the purpose of opposing vacatur.

CONCLUSION

For the reasons stated, a writ of certiorari should issue to review the judgment of United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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92-1020

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION
and N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Plaintiffs-Appellants,

v.

WINDMERE CORPORATION and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,[1]
Defendants-Appellees.

Before NEWMAN, *Circuit Judge*, FRIEDMAN, *Senior Circuit Judge*, and MAYER, *Circuit Judge*.

Newman, *Circuit Judge*

ORDER

On joint motion filed by U.S. Philips Corp., North American Philips Corp. and M.V. Philips Gloeilampenfabrieken (together herein "Philips") and Windmere Corporation, to enter settlement agreement, dismiss appeal, and vacate judgments. Izumi Seimitsu Kogyo Kabushiki Kaisha (Izumi) opposes the joint motion to dismiss and vacate the judgments. We grant the motion.

The Proceedings

Suit was brought by Philips against Windmere and Izumi in the United States District Court for the Southern District of Florida, based on the sale by Windmere, a Florida corporation, of certain rotary electric shavers supplied by Izumi, a Japanese

[1] Uncorrected caption. Izumi Seimitsu Kogyo Kabushiki Kaisha is not a party to this appeal.

corporation. Philips charged Windmere with infringement and Izumi with contributory infringement of certain United States patents. Philips also charged Windmere with unfair competition based on asserted confusing similarity of the Izumi-supplied shavers. By counterclaim Windmere charged Philips with violation of the Sherman Act. Trial was to a jury. A verdict was directed against Windmere on the antitrust counterclaim, but was reversed by this court and remanded for trial. *U.S. Philips Corp. v. Windmere Corp.*, 861 F. 2d 695, 8 USPQ2d 1885 (Fed. Cir. 1988), *cert. denied, North American Philips Corp. v. Windmere Corp.*, 490 U.S. 1068 (1989).

No appeal was taken from the judgement on the patent infringement count, which was decided in favor of Philips and against Windmere and Izumi; final judgment on the patent count was entered in 1986. The unfair competition claim was re-tried along with the antitrust counterclaim, and judgments were duly entered upon the jury verdicts, which were in favor of Windmere. *U.S. Philips Corp. v. Windmere Corp.* No. 84-2508, (S.D. Fla. Apr. 6, 1990) (antitrust issue); and (S.D. Fla. May 4, 1990) (unfair competition issue). Now before this court is Philips' appeal of these judgments.

During pendency of this appeal Philips and Windmere entered into a settlement agreement. In accordance with the terms thereof Philips and Windmere filed a joint motion to dismiss the appeal and vacate the judgments. Izumi has opposed the motion to dismiss insofar as it requests vacatur of the judgments.

I
Izumi's Standing

Izumi agues that it has standing to oppose the motion, for the following reasons:

A

Izumi states that it was a party before the district court, and that its continued status as a party is evidenced by its inclusion in this court's official caption, citing Fed. Cir. Rule 12 (practice note). Fed. Cir. Rule 12 relates to the docketing of an appeal and the filing of the record. The practice note provides that "parties included in the trial court title having an adverse interest to the appellant but not cross appealing shall be deemed appellees." Izumi states that neither Philips nor Windmere objected to the inclusion of Izumi in the official caption. Izumi thus maintains that it has standing as an appellee.

Although Izumi's name is indeed carried in the caption, Izumi is not a party to this appeal or any aspect thereof, was not a party to the trial of these claims, and did not file an appearance in the district court trial of these issues. Izumi did not file an appearance upon appeal to this court, and did not file a certificate of interest with this court. A practice note does not confer status or standing. Izumi was a party only to the patent infringement cause, for which the judgment was not appealed. Although Izumi argues that this court "does not require an appellee to be named on every claim", Izumi is not party to any claim, and has not been since 1986.

Philips points out, without contradiction, that Izumi took affirmative steps to avoid being characterized or involved as a party in the trial of these counts. The record shows Izumi's resistance to discovery on the argument that it is not a party. We conclude that inclusion on the "official caption" does not establish status as a party before this court.

B

Izumi agues alternatively that even if it were not a party to the proceedings that are the subject of this appeal and settlement, its substantial involvement in the proceedings and its substantial interest in the subject matter provide standing to oppose vacatur.

Izumi states that it was an indemnitor of Windmere and supporter of the entire defense on behalf of Windmere, including this appeal. Izumi also states that its testimony was key on the unfair competition issue. Izumi thus argues that even as a non-party it has sufficient interest to intervene and/or to oppose the motion.

We do not discern in Izumi's financial support of Windmere the authority to intervene in this court. The certificate of interest filed on this appeal identifies Windmere as the real party in interest. Despite Izumi's asserted interest as manufacturer of the accused product, Izumi refrained from intervention at the trial pursuant to Fed. R. Civ. P. 24, and did not seek to join the action under Fed. R. Civ. P. 19 or 20. Any financial or commercial interest Izumi might have in the unfair competition claim does not confer standing as a party, on the posture of this case.

C

Izumi agues that because it is involved at a trial in Illinois on similar issues, the judgment of the Florida court should be preserved for purposes of collateral estoppel. The district court in Illinois has granted a motion for summary judgment filed by Sears, Roebuck & Co. against Philips, based on preclusion due to the Florida unfair competition judgement. *U.S. Philips Corp. v. Sears Roebuck & Co.*, No. 85-C-5366 (N.D. Ill. Oct. 5, 1990), *recons. denied*, 1991 U.S. Dist. LEXIS 506 (N.D. Ill. Jan. 16, 1991). Philips and Windmere point out that Izumi seeks the benefit of the Florida settlement, yet seeks the benefit of the Florida judgment (which the settlement would vacate) for its possible effect in other actions.

Izumi does not dispute that it is not a party to the unfair competition claims in the Illinois action. In view of this status, this argument does not lend Izumi standing to intervene in order to preserve the Florida judgment.

D

We conclude that Izumi does not have standing to oppose the joint motion.

II
Vacatur

It is nonetheless appropriate that this court review the propriety of vacatur, for we do not view vacatur as automatic under all circumstances.

This court has held that vacatur of the judgment at trial is appropriate when settlement moots the action on appeal. *Federal Data Corp. v. SMS Data Products Group, Inc.* 819 F.2d 277, 280 (Fed. Cir. 1987); *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664, 5 USPQ2d 1686, 1687 (Fed. Cir. 1988). Authority is found in *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) and *Duke Power Co. v. Greenwood County*, 299 U.S. 259, 267 (1936), which provide that judgments should in general be vacated when the case becomes moot. In *City Gas Co. of Florida v. Consolidated Gas Co. of Florida*, 111 S. Ct. 1300 (1991) the Court summarily vacated a decision of the Eleventh Circuit and ordered the appellate court to dismiss the case under *Munsingwear*, apparently because the parties had settled. *Consolidated Gas Co. of Florida v. City Gas Co. of Florida*, 931 F.2d 710 (11th Cir. 1981) (on remand from Supreme Court).

We take note that some circuits have declined to vacate judgments merely because the parties settled their dispute. *E.g.*, *Clarendon Ltd. v. Nu-West Indus., Inc.*, 936 F.2d 127 (3rd Cir. 1991); *In re United States*, 927 F.2d 626 (D.C. Cir. 1991); *National Union Fire Ins. Co. v. Seafirst Corp.*, 891 F.2d 726 (9th Cir. 1989); *In re Memorial Hosp. of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988). These courts distinguish the "mootness" occasioned by settlement pending appeal from that which was the concern in *Munsingwear*. *Munsingwear* addresses the

situation where the parties are foreclosed from seeking appellate review by circumstances beyond their control, whereas these courts characterize settlement of claims pending appeal as a voluntary decision to forego appeal, and not as a "happenstance" which divests the parties of their right to appellate review. *Clarendon*, 936 F.2d at 130; *In re United States*, 927 F.2d at 627-28; *National Union*, 891 F.2d at 766; *In re Memorial Hosp.*, 862 F.2d 1301. *See generally* 13A Charles A. Wright et al., *Federal Practice and Procedure* §3533.10 (1984 & Supp. 1992) (discussing the concerns faced by courts in deciding whether to vacate a judgment in light of settlement pending appeal).

Although in the Federal Circuit vacatur is the general rule, we do not hold that vacatur must always be granted, whatever the circumstances. In this case, however, as in *Federal Data Corp.* and *Smith International*, the settlement between Philips and Windmere includes all the parties to the appeal. All of the claims of the judgments were appealed, and have now become entirely moot. *See Munsingwear, supra.* The parties to this appeal are entitled to rely on our precedent. Vacatur of the judgments on appeal is appropriate.

ACCORDINGLY, IT IS ORDERED THAT:

1. Izumi's opposition to the parties' joint motion to dismiss and vacate is DENIED.

2. The parties' joint motion is GRANTED. The judgments of April 6, 1990 and May 4, 1990 are VACATED. We remand with instructions that the case be DISMISSED WITH PREJUDICE.

3. Thereupon, Appeal No. 92-1020 is DISMISSED.

FOR THE COURT

/s/
Pauline Newman
Circuit Judge

Date: July 31, 1992

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 84-2508-Civ-Marcus

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, N.V. PHILIPS GLOEILAMPENFABRIEKEN,

Plaintiff/
Counterdefendants,
Third Party Defendant,

vs.

WINDMERE CORPORATION, and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,

Defendants/
Counterplaintiffs

ORDER OF JUDGMENT

This COURT having received a verdict from the jury on this date in favor of Windmere Corporation in the amount of $29,881,419.00 under Windmere's claim under Section II of the Sherman Act, hereby enters an order for that amount trebled to the amount of 89,644,257.00, plus reasonable attorneys fees, interest, and costs pursuant to Section IV of the Clayton Act.

DONE AND ORDERED in Chambers at Miami, Florida this 6th day of April, 1990.

/s/
Stanley Marcus
DISTRICT COURT JUDGE
SOUTHERN DISTRICT OF FLORIDA

cc: all counsel of record

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 84-2508-CIV-MARCUS

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS
CORPORATION,

Plaintiffs,

vs.

WINDMERE CORPORATION and
IZUMI SEIMITSU KOGYO KABUSHIKA
KAISHA,

Defendants.

JUDGEMENT REGARDING UNFAIR COMPETITION CLAIMS

THIS COURT having received a verdict from the jury in favor of Windmere Corporation with respect to the unfair competition claims filed by North American Philips Corporation, hereby dismisses with prejudice the claims of U.S. Philips Corporation and N.A. Philips Corporation against Windmere under Section 43(a) of the Lanham Act.

DONE AND ORDERED at Miami, Florida, this 4 day of May, 1990.

/s/
STANLEY MARCUS
UNITED STATES
DISTRICT JUDGE
SOUTHERN DISTRICT
OF FLORIDA

cc: Counsel of record

92-1020

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL COURT

U.S. PHILIPS CORPORATION, NORTH
AMERICAN PHILIPS CORPORATION and
N.V. PHILIPS GLOEILAMPENFABRIEKEN,

Plaintiffs-Appellants,

v.

WINDMERE CORPORATION and IZUMI
SEIMITSU KOGYO KABUSHIKI KAISHA,

Defendants-Appellees.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLEE, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the suggestion for rehearing in banc having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED, and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on October 7, 1992.

FOR THE COURT,
FRANCIS X. GINDHART, CLERK

Dated: October 2, 1992

By /s/
Diane M. Frye
Chief Deputy Clerk

cc: WILLIAM E. WILLIS
HERBERT H. MINTZ
EDWARD L. FOOTE

U.S. PHILIPS CORP V WINDMERE CORP, 92-1020
(DCT - 84-2508)

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

IZUMI SEIMITSU KOGYO CO., LTD.
No. 3-1. 2-CHOME. MOTOMACHI
MATSUMOTO, MAGANO PREF. 390
TLX 3342-348 IZUMM J
TEL: 0263-35-5050

Date: Feb. 20, 1984

AGREEMENT

We, Izumi Seimitsu Kogyo Co., Ltd., as seller agrees to save and hold harmless and indemnity Windmere (hereafter called "Buyer") from any and all claims, demands, actions, suits and judgements, and damages incurred and costs and expenses, including any and all attorneys' fees, incident thereto, arising out of and brought against the buyer in connection with any patent infringement charges and/or claims and/or any other charges or claims resulting from the buyers sale and/or normal use of the articles, supplies or equipment furnished by seller under this agreement. Buyer agrees to promptly and fully advise seller of any and all patent infringement charges and claims made against the buyer by reason of such sale or normal use of said articles, supplies and equipment furnished hereunder, and further agrees to supply seller with copies of all notices, letters and papers pertaining to such claims and charges and to cooperate in all reasonable ways with seller in disposing in such matters at the cost and expense of the seller.

Buyer will tender to seller and seller shall assume full and sole control of the defense to any such claims and charges and/or suit including the right of seller to employ counsel of seller's own choice, and the right of seller to make any reasonable settlement.

Windmere Products, Inc.

/s/ By _____

Izumi Seimitsu Kogyo Co, Ltd.

/s/ By _____
Shunji Izumi
President

No. 92-1020

IN THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, and N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Plaintiffs-Appellants,

v.

WINDMERE CORPORATION and IZUMI SEIMITSU KOGYO KABUSHIKI KKAISHA,
Defendant-Appellees

DECLARATION OF WILLIAM L. ANDROLIA

I, William L. Androlia, declare as follows:

1. I am a member in good standing of the Bar of the State of California. I am also a member of the firm of Koda & Androlia, 1880 Centery Park East, Suite 519, Los Angeles, California 90067. Since at least as early as 1984, I have served as patent counsel to Izumi Seimitsu Kogyo Company Ltd ("Izumi").

2. In that capacity, I have advised Izumi in connection with a civil action for patent infringement and unfair competition brought against Izumi and one of its customers, Windmere Corporation, in the United States District Court for the Southern District of Florida by U.S. Philips Corporation and North American Philips Corporation ("Philips"). I am fully familiar with the procedural history of that action, and with the nature and extent of Izumi's participation as a defendant in that action.

3. Izumi, a Japanese manufacturer of electric razors, produced rotary electric razors for Windmere, and another U.S.

customer, Sears Roebuck. Windmere sold the Izumi razors in the United States under the Ronson brand name.

4. In 1984, Izumi and Windmere executed an indemnification agreement. (Exhibit A) This indemnification agreement was included as an exhibit in the Florida action.

5. In 1984, U.S. Philips Corp. and North American Philips brought suit in the Southern District of Florida against Windmere and Izumi.

6. Pursuant to its indemnification agreement with Windmere, Izumi assumed responsibility for funding the defense of Philips' patent and unfair competition claims and has continued to bear this expense through two jury trials and this appeal. To date, Izumi has spent in excess of 2.6 million on legal fees in the Florida action, all of which have been spent on defending against Philips' unfair competition claim at trial and in opposing Philip's appeal from the district court's judgment dismissing that claim.

7. The Florida action has involved two separate jury trials. The first jury trial took place in 1986, and involved Philips' claims of patent infringement and unfair competition, as well as Windmere's counterclaim for violations of the antitrust laws. At the trial, Izumi and Windmere were represented by the same attorneys, and Izumi's president sat at counsel's table and testified concerning both the unfair competition and antitrust claims.

8. A second jury trial was held on Philips' unfair competition claim, and on Windmere's antitrust counterclaims in 1990. Izumi's president testified concerning the unfair competition and antitrust claims at that second trial as well.

9 The jury found for Windmere on the monopolization claim, and judgement was entered in the amount of $89,664,257.00 plus attorney's fees, interest and costs. The jury

further found against Philips on the unfair competition claim, concluding that Philips had not proved:

(1) that the trade dress of the Izumi manufactured razors was confusingly similar to Philips' trade dress;

(2) that Philips' trade dress was primarily nonfunctional or had acquired secondary meanings.

(Exhibit B)

10. In addition to the Florida action against Windmere and Izumi, Philips filed a companion case against Sears and Izumi in the Northern District of Illinois. (Civ. No. 85 C 05366) Like the Florida action, the Illinois action involved claims for patent infringement and unfair competition revolving around Philips' alleged trade dress. Similarly, Izumi counterclaimed alleging antitrust violations by Philips. Following judgment in the Florida action dismissing Philips' unfair competition claim, the Illinois court dismissed Philips' unfair competition claim against Sears on the ground that it was barred by the Florida judgment.

(Exhibit C)

11. On or about April 2, 1992, I informed Mr. David Friedson, President of Windmere, that Izumi would oppose any effort by Philips or Windmere to vacate the Florida court's judgment as a result of any settlement.

12. On or about May 11, 1992, I was advised by Charles Saber, Esq. of Dickstien, Shapiro and Morin, counsel for Windmere and Izumi in the Florida action, that he and his firm could not, due to a conflict of interest, represent Izumi with respect to any effort to oppose the Joint Motion to Dismiss and Vacate pending before this Court, including any action by Izumi to oppose efforts by Philips or Windmere to vacate the judgment below.

I declare under penalty of perjury that all of the foregoing is true and correct pursuant to 28 U.S.C. § 1746.

Date: May 15, 1992 /s/
William L. Androlia

SETTLEMENT AGREEMENT

This Settlement Agreement is made this 6th day of May, 1992 by and between North American Philips Corporation ("NAPC") and Windmere Corporation ("Windmere").

WHEREAS, in October 1984 NAPC sued Windmere in the United States District Court for the Southern District of Florida (the "Action") for patent infringement and unfair competition and Windmere brought counterclaims against NAPC under, among other statutes, the federal antitrust laws; and

WHEREAS, on April 6, 1990 a judgment was entered against NAPC on Windmere's antitrust counterclaim in the amount of $89,644,257 plus attorneys fees, interest and costs, and on May 4, 1990 a judgment was entered on NAPC's unfair competition claims (collectively the "Judgment"); and

WHEREAS, certain post trial motions filed by NAPC were denied by the District Court in an order dated September 3, 1991; and

WHEREAS, on September 30, 1991 NAPC filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit which appeal is now pending; and

WHEREAS, NAPC and Windmere wish to compromise and settle all claims and counterclaims asserted in the Action as well as all claims which NAPC and Windmere may have against each other as of the date of this Agreement;

NOW THEREFORE, IT IS AGREED, by and between NAPC and Windmere that all claims which each may have against the other shall be settled and compromised on the following terms and conditions:

1. At 10:00 a.m. on May 11, 1992 (the "Closing Date"), at the offices of Sullivan & Cromwell, 250 Park Avenue, New York, N.Y. 10017 (the "Closing"), Windmere shall deliver to NAPC an executed motion to vacate the Judgment, in the form attached hereto as Exhibit A.

2. At the Closing, Windmere shall deliver to NAPC an executed General Release.

3. At the Closing, NAPC shall deliver to Windmere an executed General Release.

4. On the Closing Date, NAPC shall pay to Windmere the sum of $57,000,000 by wire transfer in immediately available funds to Windmere's account at the Bank of New York, One Wall Street, New York, N.Y.; ABA #02100018, Account #8033297689, Attention: Agency Function Administration; Reference: Windmere.

5. The transactions described in paragraphs 1-4 shall be executed simultaneously and no one of them shall be deemed completed until all are completed. The completion of the transactions described paragraphs 1-4 shall constitute the complete performance by each party to this Settlement Agreement of their mutual obligations set forth in paragraphs 1-4.

6. NAPC and Windmere further agree that Windmere shall cooperate, to the fullest extent of its ability, with NAPC in filing the motion referred to above and in taking such other steps as may be necessary to vacate the judgment and the proceedings in the District court relevant to the Judgment. It is the intention of all parties to this Settlement Agreement that the Judgment, the opinion and the jury interrogatories on NAPC's unfair competition claim and Windmere's antitrust claim will be of no force and effect and shall have no precedential or other value, including, without limitation, any effect under the doctrines of collateral estoppel or res judicata; provided, however and without limiting the foregoing, Windmere's rights to the consideration described in paragraphs 3 and 4 above shall in no way be affected by any failure, for whatever reason, to realize the intention of the parties described in this paragraph 6.

7. This agreement may be executed in one or more counterparts, each of which shall be deemed to be an original and all of which shall be a single Agreement.

8. NAPC and Windmere shall consult with one another prior to the release of any public statements concerning the Settlement.

WINDMERE CORPORATION

by _____

( )

NORTH AMERICAN PHILIPS CORPORATION

by /s/_____

( )

Samuel J. Rozel
Senior Vice President and Secretary

STATE OF FLORIDA
COUNTY OF DADE

ss.:

On May _____, 1992 before me personally came _____ __ to me known, who by me duly swore did depose and say that deponent is the _____ of Windmere Corporation, that deponent executed the above document by order of the Board of the corporation.

_____

Notary Public

STATE OF NEW YORK
COUNTY OF NEW YORK

ss.:

On May 6, 1991 before me personally came /s/Samuel J. Rozel to me known, who by me duly sworn did depose and say that deponent is the Sr. V.P. & Sec. of North American Philips Corporation, that deponent executed the above document by the order of the Executive Management Committee of the Corporation.

/s/_____
Loretta L. Nassau
Notary Public

* * * *

8. NAPC and Windmere shall consult with one another prior to the release of any public statements concerning the Settlement.

WINDMERE CORPORATION

by /s/_____
( )
David Friedson
President

NORTH AMERICAN PHILIPS CORPORATION

by_____
( )

STATE OF FLORIDA
COUNTY OF DADE

ss.:

On May 6, 1992 before me personally came /s/David Friedson to me known, who by me duly sworn did depose and say that deponent is the President of Windmere Corporation, that deponent executed the above document by order of the Board of the corporation.

/s/_____
Marsha E. Wisecup
Notary Public

STATE OF NEW YORK
COUNTY OF NEW YORK

ss.:

On May, 1991 before me personally came _____ to me known, who by me duly sworn did depose and say that deponent is the _____ of North American Philips Corporation, that deponent executed the above document by the order of the Executive Management Committee of the Corporation.

_____
Notary Public

85 C 5366

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORP.,

Plaintiffs,

v.

SEARS ROEBUCK & CO. and IZUMI
SEIMITSU KOGYO KABUSHIKI KAISHA,

Defendants.

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on three motions brought by Defendants Sears Roebuck & Co. ("Sears") and Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"). The first motion is for summary judgment dismissing Plaintiffs U.S. Philips Corporation and North American Philips Corporation (both referred to jointly as "Philips") on their claim for infringement of U.S. Patent No. 4,227, 301 (the "301 patent"). The second motion is for summary judgment dismissing Philips' claim for infringement of U.S. Design Patent N. 259,591 (the "591 patent"). The third motion the defendants bring is for summary judgment dismissing Philips' claim for unfair competition. For the reasons stated herein, the first and second motions are denied and the third motion is granted.

FACTS

Izumi is a Japanese corporation which sells razors to Windmere Corporation and Sears for resale in the United States. Windmere sells its razors under the "Ronson" trade name and

Sears sells its razors under the name "Sears Rotomatic." N.V. Philips is a Netherlands corporation which sells its razors in the United States through American Philips Corporation under the tradename "Norelco." N.V. Philips indirectly owns or controls U.S. Philips, a Delaware corporation which holds intellectual property rights including the utility and design patents at issue in this case.

Philips filed this action on June 6, 1985, alleging that Sears infringed and Izumi induced the infringement of the '301 patent and the '591 patent. Specifically, in their claim for the infringement of the '301 patent, Philips allege that the design of the Sears Rotomatic shaver blade setting is an unfair copy of the design of Philips' rotary electric shaver blade setting. Concerning the infringement of the '591 patent, Philips allege that the faceplate of the Sears' Rotomatic III shaver is an infringement of the '591 patent. On February 12, 1986, Philips filed a supplemental complaint against Sears alleging two counts of unfair competition, claiming that the design of a Sears shaver was a copy of the design of some of Philips' shavers.

On June 13, 1988, this court granted summary judgment as to Izumi and denied as to Sears on the '301 patent infringement claim. This court also denied the defendants' motion for summary judgment as to the '591 patent infringement claim as material issues of fact existed which could only be decided by the trier of fact.

Philips had filed a similar lawsuit against Izumi and Windmere, the other seller of Izumi razors, in a Florida district court in October 1984. Philips claimed an infringement of the '301 patent and unfair competition in violation of 43(a) of the Lanham Act, 15 U.S.C. § 1125. *U.S. Philips v. Windmere Corp.*, No. 84-2508-Civ (the "Florida litigation"). In that suit Philips alleged that the design of all of the rotary electric shavers sold by Windmere were an unfair copy of the design of some of Philips rotary electric shavers. Izumi filed a declaratory judg-

ment counterclaim in the Florida litigation alleging that the '301 was invalid and not infringed. That case proceeded to a jury trial and on April 30, 1986, the court entered final judgment on the jury's verdict in favor of Philips on the patent infringement claims, against Izumi on its declaratory judgment counterclaim, and against Philips on its unfair competition claims. On March 20, 1988, the Florida Court granted Philips' motion for a new trial on its unfair competition claims only. Philips' unfair competition claim was retried in Florida in March and April 1990. On April 6, 1990, the jury found for Windmere on all issues. Philips then filed motions for a judgment notwithstanding the verdict and for a new trial in the Florida action.

DISCUSSION

I. Summary Judgment Standard

Summary judgment is appropriate if the pleadings, answers to interrogatories, admissions, affidavits and other materials show "that there is no genuine issue as to any material fact and the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). A material fact is one which might effect the outcome of the suit under applicable law. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). No genuine issue exists "unless there is sufficient evidence favoring the non-moving party for a jury to return a verdict for that party." *id.* at 249. Summary judgment may be granted if the evidence is merely colorable or is not significantly probative. *Id.* at 249-50.

When a properly supported motion for summary judgment has been made, the opposing party "must set forth specific facts showing that there is a genuine issue for trial." *Id.* The opposing party is entitled to the benefit of all favorable inferences which can reasonably be drawn from the underlying facts; however, only *reasonable* inferences will be drawn, not every conceivable inference. *DeValk Lincoln Mercury, Inc. v. Ford Motor Co.*, 811 F.2d 326, 329 (7th Cir. 1987).

II. '301 Patent

Defendant Sears moves under the doctrine of collateral estoppel for summary judgment based upon the results of the trials in *U.S. Philips v. Windmere*, No. 84-2508-Civ ("Windmere"). In *Windmere* the jury awarded Philips $6,500.00 for Izumi's infringement of the '301 patent. Sears argues that because Izumi provided Sears with substantially the same shaver parts as Izumi gave Windmere, any patent infringement of the '301 patent by Sears should result in the same damage award as the jury awarded in *Windmere*. Sears seeks and order limiting the damages for any '301 patent infringements to $6,500.00.

Philips responds by arguing that 1) there is no showing that the infringements by Sears and Windmere were identical, 2) Philips may be awarded increased damages in the present case because of the Philips' claim that Sears willfully infringed the patent, and 3) it is unclear how the jury in *Windmere* came to award $6,500.00 in damages. Thus, the $6,500.00 award should not be following in the present case. We agree with Philips.

A. Law of Collateral Estoppel

The collateral estoppel doctrine precludes relitigation of issues in a subsequent proceeding when the following four elements are satisfied: 1) the party against whom estoppel is asserted was a party to the prior adjudication; 2) the issues forming the basis of the estoppel were actually litigated and decided on the merits in the prior suit; 3) resolution of those particular issues was necessary to the court's judgment and 4) those issues are identical to the issues raised in the subsequent suit. *County of Cook v. Midcom Corp.*, 773 F.2d 892, 898 (7th Cir. 1985); *Guenther v. Holmgreen*, 738 F.2d 879, 844 (7th Cir. 1984). Collateral estoppel "must be confined to situations where the matter raised in the second suit is identical in all respects with that decided in the first proceeding and where the

controlling facts and applicable legal rules remain unchanged." *Commissioner v. Sunnen*, 333 U.S. 591, 599-600 (1948). The party asserting collateral estoppel has the burden of proving each of those elements. *Folson v. Continental Illinois National Bank & Trust Co.*, 633 F. Supp. 178, 181 (N.D. Ill. 1986). Even where those elements are shown, however, there is no preclusion if the party against whom collateral estoppel is asserted had no full and fair opportunity to litigate the issues in the former action. *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 91 S. Ct. 1434, 1445 (1971).

B. Application to claim of '301 patent infringement:

The Florida jury's award of $6,500.00 for Izumi and Windmere's infringement of the '301 patent is not binding in this suit for Sears' infringement. To begin, Sears has made no showing that the circumstances of its infringement are identical to Windmere's. The facts suggest different periods of infringement by different shavers. Sears acknowledged that it began selling Izumi-manufactured rotary shavers in 1977, whereas, the evidence in *Windmere* showed that Windmere did not begin selling rotary shavers until 1984.

In addition, if Philips is successful in proving willful infringement by Sears, Philips may get increased damages under 35 U.S.C. 284. Finally, the *Windmere* jury awarded a dollar amount without a clear explanation of the method of calculation. Sears argues that the jury used the cost to Izumi to make a non-infringing replacement part as the basis of their damage calculation. This is speculation. Without more, the damage award in *Windmere* will not be assumed to apply to Sears. Philips should be free to seek damages specific to Sears' alleged infringement in this action. Sears' motion for summary judgment to limit the damage award is denied.

III. '591 Patent

Sears and Izumi seek summary judgment on the '591 patent infringement claim as 1) Philips admitted on three occasions that the Sears Rotomatic III faceplate does not infringe the '591 patent, and 2) the Sears Rotomatic III faceplate does not duplicate any novel feature of the '591 faceplate.

Philips responds by arguing that 1) this is a duplicate motion that this court already denied and the law has not changed to warrant a reversal of the court's prior ruling, 2) the alleged admissions are taken out of context, and 3) there is a factual issue for the jury as to whether the designs would confuse the ordinary purchaser. Therefore, summary judgment is inappropriate here. We agree with Philips.

We will view Sears' motion for summary judgment on the '591 patent infringement claim as a new motion and discuss it accordingly. In our June 13, 1988, opinion in this case we informed the parties that the infringement claim required a comparison by the "ordinary observer" under the *Gorham* test. The *Gorham* test provides:

> if, in the eye of a ordinary observer, giving such attention as a purchaser usually gives, two designs are substantially the same, if the resemblance is such as to deceive such an observer, inducing him to purchase one supposing it to be the other, the first one patented is infringed by the other.

Gorham Mfg. Co. v. White, 81 U.S. 511, 528 (1872).

Sears argues that on different occasions a Philips' researcher, attorney, and Vice President for marketing all admitted that the Sears Rotomatic did not duplicate the '591 patent. Philips responds that these alleged admissions are taken out of context. Moreover, as we stated in our June 13th opinion, the Vice President of marketing is not the "ordinary observer".

Likewise, the attorneys and researchers are not ordinary observers. Moreover, there still exits a factual dispute as to whether the Sears Rotomatic would confuse the ordinary purchaser.

Sears also argues the *Avia Group International, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557 (Fed Cir. 1988) establishes a new standard for infringement claims, requiring the infringing item to copy the novel feature of the infringed patent. Sears argues that its faceplate does not copy the novel feature of the '591 faceplate. However, even under *Avia Group's* novel feature standard, Sears' argument must fail.

There is a factual issue as to what the '591 novel features are. The parties disagree on which diagrams are accurate representations of the '591 faceplate and the Sears Rotomatic faceplate. Also, Sears argues that '110 patent is prior art to '591. Philips claims that '110 patent is a utility patent primarily directed to the inner mechanism of a shaver. Clearly, with such disagreements between the parties, the issues of whether Sears has infringed the '591 patent presents factual issues for the trier of fact. Accordingly, Sears motion for summary judgment on the issue of whether the Sears Rotomatic infringed the '591 patent is denied.

IV. Unfair Competition

Sears seeks summary judgment dismissing the unfair competition claim as Philips fully litigated and lost the identical claim in *Windmere*. Specifically, Sears argues that 1) two juries found the three elements necessary to an unfair competition claim lacking in *Windmere*, 2) both the *Windmere* claim and the present claim were brought under §43(a) of the Lanham Act, § 1125(a) of 15 U.S.C., 3) the jury instructions that the Florida judge gave on functionality and second meaning were consistent with Illinois law, and 4) the Seventh Circuit twice rejected Philips' different law arguments.

Philips responds that it has not had a full and fair opportunity to litigate its case against Sears as Sears was not a party in *Windmere*. Specifically, Philips argues that 1) Illinois courts and Florida courts analyze the issues of functionality and secondary meaning differently and the burdens are different for the plaintiffs and defendants, and 2) the likelihood of confusion to consumers is based on many marketing factors which will be different for Sears than they were for Windmere. Thus, summary judgment is inappropriate in this case. However, Philips' arguments miss the point. The *Windmere* court has already determined that Philips' trade dress is not protected, thus, whether Sears actually copied it or not is irrelevant.

To receive legal protection for a trade dress a party must generally prove the following three elements: 1) its design was primarily non-functional; 2) the design had achieved secondary meaning and 3) there was a likelihood of confusion between the plaintiff's product and the defendant's product. *See e.g., Blau Plumbing Inc. v. S.O.S. Fix-it Inc.*, 781 F.2d 604, 608-611 (7th Cir. 1986). Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law, *see, e.g., Blau*, 781 F.2d at 610, the court in *Windmere* found that Philips' trade dress was not protected.

In a patent infringement suit, the patentee is estopped from asserting the validity of a patent that had already been declared invalid in a prior suit in federal court against a different defendant, unless the patentee demonstrates that he did not have fair and full opportunity, substantively, procedurally, and evidentially, to litigate the validity of his patent in the prior suit. *Blonder-Tongue Laboratories v. University of Illinois Foundation*, 91 S. Ct. 1434, 1445 (1971); *A J. Canfield Company v. Vess Beverages, Inc.*, 859 F.2d 36, 40 (7th Cir. 1988).

In the present case, Philips has presented no evidence to suggest that they did not have a full and fair opportunity to litigate their trade dress in Florida. In fact, Philips litigated their trade dress in Florida on two different occasions. As Philips points out, were the court to accept the Philips' position, Philips would be allowed to argue circuit by circuit whether its trade dress should be protected. This would lead to an inconsistent result where Philips' trade dress would be functional, and capable of being copied, in some circuits and non-functional and not capable of being copied in others.

The arguments Philips presents to argue that the law and burden of persuasion differ in Illinois and Florida are off base. Philips *chose* to litigate its trade dress in Florida. Philips was prepared to and did litigate its claim to the finish. Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips' unfair competition claim is granted.

/s/
Charles P. Kocoras
United States District Judge

Dated: October 5, 1990

No. 92-1020

IN THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

U.S. PHILIPS CORPORATION, NORTH AMERICAN PHILIPS CORPORATION, and N.V. PHILIPS GLOEILAMPENFABRIEKEN,
Plaintiffs-Appellants,

v.

WINDMERE CORPORATION and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants-Appellees.

JOINT MOTION TO DISMISS THE APPEAL AS MOOT AND VACATE THE JUDGMENTS BELOW

Appellants North American Philips Corporation ("N.A. Philips") and N.V. Philips Gloeilampenfabrieken ("N.V. Philips") (collectively "Phillips") and appellee Windmere Corporation ("Windmere"), having reached an agreement to settle the above-referenced litigation under the terms set forth in Exhibit A hereto (the "Settlement Agreement"), respectfully move this Court for an Order in the form of Exhibit B hereto dismissing the appeal in No. 92—1020 as moot and vacating the District Court's Judgments. The relief requested by this joint motion is directly supported by this Court's prior decisions.

FACTUAL BACKGROUND

Philips is appealing a judgment entered on May 4, 1990, dismissing its claim under the Lanham Act and a judgment entered on April 16, 1990, awarding Windmere $89,662,257 plus interest and attorneys' fees on its antitrust counterclaim. This action was commenced in the United States District Court for the Southern District of Florida by N.A. Philips and its sister

company, U.S. Philips Corporation, against Windmere and its supplier, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi"), for patent infringement and against Windmere for unfair competition relating to Philips' NORELCO brand rotary shavers. Izumi indemnified Windmere for the claims asserted by Philips. Windmere counterclaimed against Philips, alleging numerous violations of federal law (most notably the Sherman Act) and state law.

This case was first tried to a jury in April 1986. The jury found that Philips' patent was valid and infringed, and the judgment entered on Philips' patent claim is not implicated by this appeal. Windmere's Sherman Act claims were dismissed pursuant to the District Court's grant of Philips' motion for a directed verdict. Windmere appealed, and this Court, in a three-to-two decision, determined that Windmere's monopolizations claim should have been submitted to the jury and thus reversed the District Court's directed verdict. A second trial followed, and two judgments were entered that are the subject of Philips' appeal. A fuller description of the facts is set forth in the parties' briefs on the merits.

THE APPEAL SHOULD BE DISMISSED AND THE JUDGMENT BELOW VACATED

During the pendency of this appeal, Philips and Windmere engaged in lengthy settlement discussions. Those discussions recently resulted in a Settlement Agreement fully resolving all disputes between all parties to this appeal. As a result, this appeal no longer presents a live controversy, and this Court should dismiss this appeal as moot. In circumstances such as those present here, "the appropriate course is for the appellate court to . . . vacate the judgment below." *Federal Data Corp.* v. *SMS Data Prods. Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987); *see also Smith Int'l. Inc.* v. *Hughes Tool Co.*, 839 F2d 663, 664 (Fed. Cir. 1988).

As part of the Settlement Agreement, Windmere agreed to join Philips in moving this Court for an Order vacating the District Court's judgment. Philips' and Windmere's joint motion is nearly identical to that filed with this Court in *Smith Int'l. Inc.*, 839 F.2d at 663-64. There, the settling parties jointly moved this Court for an order vacating the judgment of the district court after all conditions of the settlement had been satisfied, including the payment of the cash amount called for by the settlement agreement. *Id.* at 663-64. This Court granted the parties' joint motion to vacate, emphasizing that the settlement mooted the controversy between the parties:

> We agree with the parties that where it appears upon appeal that the controversy has become entirely moot, which is the effect of the settlement in this case, "*it is the duty of the appellate court to set aside the decree below . . . .*"

Id. at 664 (quoting *Duke Power Co.* v. *Greenwood County*, 299 U.S. 259, 267 (1936)) (emphasis added).

This Court similarly held in *Federal Data Corp.*, 819 F.2d at 280, that "[w]hen the parties have settled their differences, then the appropriate course is for the appellate court . . . to vacate the judgment below." The Court based this holding on the long-established federal policy favoring dispute resolution through voluntary settlement and the Supreme Court's holding in *United States* v. *Munsingwear*, 340 U.S. 36 (1950):

> "The established practice of the court in dealing with a civil case from a court in the federal system which has become moot while on its way here or pending our decision on the merits is to reverse or vacate the judgment below . . . ."

819 F.2d at 279 (quoting *Munsingwear*, 340 U.S. at 39).

The law of this Circuit is entirely consistent with the holding of the Supreme Court in *City Gas Co. of Florida* v.

Consolidated Gas Co. of Florida, 111 S. Ct. 1300 (1991). The parties in *City Gas Co.* settled their dispute after the judgment of the Eleventh Circuit, sitting en banc, had been entered and while a petition for writ of certiorari was pending before the Supreme Court. The Supreme Court thereafter granted certiorari and vacated the judgments below in accordance with its *Munsingwear* decision. *City Gas Co.*, 111 S. Ct. at 1300. *See also Deakins* v. *Monoghan*, 484 U.S. 193, 200 (1988) ("When a claim is rendered moot while awaiting review by this Court, the judgment below should be vacated . . . ."). As the Eleventh Circuit explained on remand from the Supreme Court, "[s]ince the decision of the en banc court, the parties have reached a settlement and the case, therefore, is moot." *Consolidated Gas Co. of Florida, Inc.* v. *City Gas Co. of Florida*, 931 F2d. 710, 711 (11th Cir. 1991). Pursuant to the Supreme Court's order, the Eleventh Circuit vacated its own en banc judgment and the judgment of the district court. *Id.*

According to the uniform law of this Circuit and the Supreme Court's holding in *City Gas Co.*, this Court should effectuate the desire of all parties to this appeal by entering an Order in the form of Exhibit B hereto vacating the judgment of the District Court and dismissing this appeal as moot.

Dated: New York, New York
May 11, 1992

Respectfully submitted

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

U.S. PHILIPS CORPORATION,
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs,

v.

SEARS ROEBUCK & CO., and IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants.

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This patent infringement/unfair competition dispute is presently before the court on two motions. The first motion is brought by plaintiffs, U.S. Philips Corporation ("U.S. Philips") and North American Philips Corporation ("N.A. Philips"), to vacate the summary judgment entered by this Court on October 5, 1990, dismissing plaintiffs' unfair competition claim against defendant Sears Roebuck & Co ("Sears"). The second motion is brought by defendant, Izumi Seimitsu Kogyo Kabushiki Kaisha ("Izumi") to reconsider this Court's order on December 1, 1987, for partial summary judgment dismissing this defendant's antitrust counterclaims.

For the sake of brevity, the Court will not repeat here the well-known procedural history of this case but will include pertinent procedural facts in our discussion below.

For the reasons set forth below, we will grant plaintiffs' motion to vacate the summary judgment order and will deny Izumi's motion for reconsideration.

DISCUSSION

A. MOTION TO VACATE SUMMARY JUDGMENT

Plaintiffs, U.S. Philips and N.A. Philips (collectively "Philips") move this Court to vacate the October 5, 1990 summary judgment order dismissing N.A. Philips' claim for unfair competition against defendant, Sears. Philips argues that the sole basis of our summary judgment order against N.A. Philips rests on the collateral estoppel effect of the Florida court judgment entered against N.A. Philips on its unfair competition claim against Windmere corporation. In support, Philips refers to our memorandum opinion, where we held that the judgements in the Florida cases ("*Windmere*"), preclude Philips' claims against Sears:

> Twice Philips litigated these essential elements in *Windmere* and twice the jury found that Philips had not proven the required elements. As functional designs are not accorded any protection under trademark or unfair competition law (cite omitted), the court in *Windmere* found that Philips' trade dress was not protected . . . Under *Blonder-tongue* Philips is now barred from relitigating the same issue in Illinois. Accordingly, Sears' motion for summary judgment on Philips unfair competition claim is granted.

(Memorandum Opinion, October 5, 1990, at 12-14). Philips further argues that the basis for our summary judgment ruling is no longer valid because the Federal Circuit vacated the *Windmere* judgment on July 31, 1992 following the parties' settlement agreement and move for vacatur.[1] Philips argues, and

[1] The procedural history is as follows: In May 1992, Windmere and Philips reached a settlement of the *Windmere* action. Given that Philips was giving up its right to appeal by settlement, the parties agreed that they would jointly move to vacate the unfair competition and antitrust judgments. Izumi, the defendant in the patent infringement claim in this action, filed an objec-

we agree, that as a result of their vacatur, the judgments in *Windmere* no longer have preclusive effect. Accordingly, we will vacate our summary judgement against N.A. Philips.

Defendant, Sears, opposes the motion to vacate the summary judgment, arguing that a judgment's preclusive effect is lost only when the judgment is vacated on the merits, not when the judgment is vacated upon settlement. We find, however, that the caselaw refutes this distinction. Moreover, Sears urges this Court to adopt the Ninth Circuit rule articulated in *Bates v. Union Oil Co.*, 944 F.2d 647 (9th Cir. 1991), *cert den Union Oil Co. v. Bates*, 112 S. Ct. 1761, 60 U.S.L.W. 3735 (US 1992), holding that a vacated judgment can be given collateral estoppel effect where the parties settled while the judgment was on appeal. We find, however, that, in *Bates*, the Ninth Circuit drew a narrow exception to the settled rule for instances where a district court of that circuit vacates without first undergoing the weighing analysis mandated by the Ninth Circuit law in *Ringsby Truck Lines, Inc. v. Western Conferences of Teamsters*, 686 F.2d 720 (9th Cir. 1982). Therefore, we find *Bates* inapplicable to the present case where the Federal Circuit vacated the *Windmere* judgments at issue *in compliance* with its own law. Moreover, Sears' implication that the Federal Circuit improperly vacated the *Windmere* judgments misconstrues the instant issue. The issue before this Court is not whether the Federal Circuit was correct in vacating the *Windmere* judgments but, rather, the impact of the vacatur thereby ordered on our prior summary judgment. For these reasons, we reject Sears' arguments in opposition to the motion to vacate the summary judgment.

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tion to the motion to vacate the unfair competition judgment. Nonetheless, on July 31, 1992, the Court of Appeals for the Federal Circuit vacated the judgments. *See U.S. Philips v. Windmere Corp.*, No. 92-1020, slip op. at 5 (Fed. Cir. July 31, 1992). On August 12, 1992 the Federal Circuit denied Izumi's motion to stay the mandate for the vacatur order. On October 2, 1992, Izumi's petition for rehearing and for en banc consideration was denied.

The issue in contention between the parties is the collateral estoppel effects of a judgment vacated pursuant to settlement. In the ensuing discussion, we will address first the bases in support of our conclusion that a vacated judgement has no preclusive effect and then our reasons for vacating this Court's summary judgment order.

1. A Vacated Judgment Has No Preclusive Effect

As mentioned above, we relied upon the Florida court's *Windmere* judgments in reaching our determination in the summary judgment order that plaintiff's unfair competition claims were precluded on collateral estoppel grounds. On July 31, 1992, however, the Federal Circuit vacated these judgments. For the following reasons, we find that the vacated *Windmere* judgments have lost their preclusive effect.

a. The Federal Circuit's Vacatur Was Proper

The Federal Circuit's vacatur of the *Windmere* judgments was in compliance with the law of the Federal Circuit. In *U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 at 5 (Fed. Cir. July 31, 1992), the Federal Circuit ruled that vacatur of the *Windmere* trial judgments was appropriate because "settlement moots the action on appeal." In reaching this conclusion, the Federal Circuit relied on the following precedent: *Federal Data Corp. V. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed. Cir. 1987) ("When the parties have settled their differences, then the appropriate course of action is for the appellate court to dismiss the action and to vacate the judgment below [citation omitted]."); *Smith Int'l. Inc. v. Hughes Tool Co.*, 839 F.2d 663, 664 (Fed. Cir. 1988) ("where it appears upon appeal that the controversy has become entirely moot, which is the effect of settlement in this case, 'it is the duty of the appellate court to set aside the decree below and to remand the cause with directions to dismiss.' [citation omitted]"); and *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950) ("the established

practice of the Court in dealing with a civil case from a court in the federal system which has become moot while on its way here . . . is to reverse or vacate the judgment below"). The Federal Circuit addresses the effect of vacatur pursuant to settlement in its recent *Kimberly-Clark Corp. v. Proctor & Gamble Distributing Co.* decision, which is also noteworthy for its citation of the July 31, 1992 *U.S. Philips* ruling presently contemplated by this Court:

> Here, K-C and P & G settled the infringement issues by granting each other immunity from suit and releasing one another from past infringement damages. We therefore vacate that part of the district court's judgment relating to infringement, as such vacation eliminates judgments on which review has now been foreclosed. *United States v. Munsingwear, Inc.*, 340 U.S. 36, 39-40 (1950); *see also U.S. Philips Corp. v. Windmere Corp.*, No. 92-1020 (Fed. Cir. July 31, 1992); *Federal Data Corp. v. SMS Data Products Group, Inc.*, 819 F.2d 277, 280 (Fed Cir. 1987).

Nos. 92-1011 & 92-1024, 1992 U.S. App. LEXIS 19815 at *6-*7 (Fed. Cir. Aug. 26, 1992). Our determination that the vacatur of the *Windmere* judgments terminates their preclusive effect is thus in accordance with the Federal Circuit's treatment of the issue. We further recognize that the Federal Circuit complied with the law of that circuit when it vacated the *Windmere* judgments in *U.S. Philips*.

b. The Impact of Vacatur Under Seventh Circuit Law

We determine that, according to the Seventh Circuit, a vacated judgment loses its preclusive effect, regardless of whether or not the judgment was vacated pursuant to a settlement. Sears argues that the Seventh Circuit has not yet ruled on the issue whether to give collateral estoppel effect to a federal judgment vacated because the parties settled on appeal. We disagree in view of *Pontarelli Limousine, Inc. v. Chicago*, 929

F.2d 339 (CA7 Ill 1991), *reh, en banc, den Pontarelli Limousine, Inc. v. Chicago*, 1991 U.S. App. LEXIS 9467 (CA7 1991), where the Seventh Circuit held that an Illinois state court judgment lost all preclusive force when it was vacated pursuant to a settlement. In reaching this conclusion, the Seventh Circuit indicated that, though it applied Illinois law, this was federal law as well:

> The first question on appeal . . . is whether the district judge erred in refusing to give the judgment in *Chicago Courtesy* collateral estoppel effect in this case, . . . He did not err. A vacated judgment has no collateral estoppel or res judicata effect under Illinois law, [citation omitted] (or any other law, *No East-West Highway Committee, Inc. v. Chandler*, 767 F.2d 21, 24 (1st Cir. 1985).[2]

Sears points to the Seventh Circuit's holding in *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), where the court held it would not vacate judgments on a motion by parties who settled while the case was on appeal. Sears uses this holding to argue that the Seventh Circuit's practice of refusing vacatur upon settlement avoids loss of preclusion in the instant case. The Seventh Circuit in *Pontarelli*, however, rejects this argument, which was raised by a party to that suit as well:

> The plaintiffs rely on *In re Memorial Hospital of Iowa County, Inc.*, 862 F.2d 1299 (7th Cir. 1988), for the contrary position. But that was a case in which we refused to vacate a judgment. *Had we done so, then*

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[2] The court in *No East-West Highway* ruled "A vacated judgment has no preclusive force either as a matter of collateral or direct estoppel or as a matter of the law of the case." 767 F.2d at 24. The court relied, in part, upon 18 C. Wright, A. Miller & E. Cooper, Federal Practice and Procedure § 4432 at 302 (1981), which reads: "Once . . . the judgment is vacated, preclusion is of course defeated as to any matter that is left open for further proceedings."

> — *as our opinion made clear — the judgment could not have been used in future litigation*. Indeed this was one of the considerations that moved us not to vacate it. *Id.* at 1302. Maybe the judge in *Chicago Courtesy* should not have vacated the judgment in that case either, but he did so, and thus deprived it of any future effect.

929 F.2d at 341 (emphasis added). In the instant case, we need not ask whether the Seventh Circuit would have vacated the *Windmere* judgments as did the Federal Circuit. Rather, what is important to the present motion is that the Federal Circuit vacated the *Windmere* judgments in compliance with the law of that circuit. In light of this properly entered vacatur and the *Pontarelli* holding, this Court determines that the *Windmere* judgments no longer have preclusive effect.

c. Other Circuits' Treatment of This Issue

We find that other circuits are in agreement with our resolution of this issue. The following court opinions attest to this: *Universal City Studios, Inc. v. Nintendo Co.*, 578 F. Supp. 911, 919 (S.D.N.Y. 1983) *aff'd Universal City Studios, Inc. v. Nintendo Co.* 746 F.2d 112 (CA2 NY 1984) (no preclusive effect as to any issues where court of appeals vacated judgment pursuant to parties's settlement agreement); *Dodrill v. Ludt*, 764 F2d. 442, 444 (6th Cir. 1985) ("[T]he general rule is that a judgment which is vacated, for whatever reason, is deprived of its conclusive effect as collateral estoppel."); *Delta air Lines, Inc. v. McCoy Restaurants, Inc.*, 708 F.2d 582, 585 (11th Cir. 1983) (After noting that the parties "properly" decided not to argue that a judgment vacated on appeal after settlement carried any preclusive effect, the court stated a "district court ruling vacated by a court of appeals as moot has no precedential value."); *Harris Trust and Savings Bank v. John Hancock Mutual Life Insur. Co.*, 1992 U.S. App. LEXIS 17451, No. 91-7854 at *25-*26 (2nd Cir. July 30, 1992) ("it is an abuse of

discretion for a district court to refuse to enter a vacatur pursuant to a settlement providing that the vacated order could not have collateral estoppel effect in any subsequent action.").[3]

2. The Summary Judgment Against N.A. Philips Shall Be Vacated

This Court will vacate the summary judgment against N.A. Philips dismissing its unfair competition claim because the judgement upon which it rests has been vacated by the Federal Circuit in *U.S. Philips*. "[A] second judgment based upon the preclusive effects of the first judgment should not stand if the first judgment is reversed." Charles A. Wright et al., *Federal Practice and Procedure* § 4433 at 311 (1981). *See also Consolidated Express, Inc. v. New York Shipping Ass'n*, 641 F.2d 90,93-94 (3d Cir. 1981) *prohibition den In re International Longshoremen's Asso.*, 451 U.S. 905 (1981) ("Since the judgment which was the predicate for our discussion of collateral estoppel has been vacated so much of our prior judgment as required giving the judgment any effect in this case must be vacated."); *Fredyma v. AT&T Network Systems, Inc.*, 1991 U.S. App. LEXIS 13699 at *2 (1st Cir. 1991) (Dismissal of a second complaint based on the preclusive effect of the first complaint whose dismissal was later vacated on appeal had to be reinstated because "[a] judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel."); *Humphreys v. Vic Corp.*, 1991 U.S. App. LEXIS 905 at *11 (CA6 1991) ("A judgment in a second action that rests on the preclusive effects of a judgment in a prior action should not be allowed to stand if the first judgment is reversed.").

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[3] In agreement is 1AB James Wm. Moore et al., Moore's Federal Practice ¶ 0.416[2] at 517 (2d ed. 1992): "A judgment that has been vacated, reversed, or set aside on appeal is thereby deprived of all conclusive effect, both as res judicata and as collateral estoppel [footnote omitted] The same is true, of course, of a judgment vacated by a trial court."

Therefore, in light of the Federal Circuit's vacatur of the *Windmere* judgments and our determination that, as such, the judgments no longer have preclusive effect, we vacate the summary judgement this Court entered against N.A. Philips.

B. MOTION FOR RECONSIDERATION

Izumi presently moves this Court to reconsider its December 1, 1987 order granting partial summary judgement, where we held that Izumi's antitrust counterclaims were compulsory counterclaims in the *Windmere* action. Izumi bases this present motion on the alleged reversal of representations made by Philips before the Federal Circuit and this Court. Izumi contends that Philips currently asserts that the predatory pricing antitrust counterclaims do not arise out of the same transaction or occurrence as the subject matter of the patent claim filed by U.S. Philips against Izumi, whereas at the time of moving for summary judgment against Izumi's antitrust counterclaims, Philips asserted the exact opposite. The issue we must address is whether Philips allegedly contradictory representations entitles Izumi to have its counterclaims reinstated. We determine that they do not and thereby deny Izumi's motion.

In our December 1, 1987 opinion, this Court determined that Izumi's antitrust claims were compulsory counterclaims which should have been brought in the Florida *Windmere* action. This Court then concluded that since Izumi did not file these claims in the Florida action and the case proceeded to final judgment, Izumi was barred from bringing those claims here. We stated:

> Thus, Izumi as a named defendant to the patent infringement claim, and the conceded "real party in interest to the claim of unfair competition, had the capacity to present its entire controversy in the *Windmere* lawsuit. It was, therefore, incumbent upon Izumi to do so or be forever barred.

(Memorandum Opinion, at 13). Therefore, we granted partial summary judgment for Philips, holding that Izumi's antitrust counterclaims were compulsory counterclaims in *Windmere* and, as such, were barred form the instant action.

We recognize that Izumi's three prior motions for reconsideration were denied by this Court on December 22, 1987, May 19, 1989, and May 17, 1990. On all three occasions, we ruled that Izumi had presented nothing that in any way affected the basis for this Court's original ruling. Once again, we find that Izumi's contentions do not refute the wisdom of our prior holding. The fact of Philip's change in position, even if it is true, does not give this Court sufficient ground to reverse its prior ruling that Izumi's claims were compulsory counterclaims which should have been brought in the Florida action. Consequently, Izumi's motions to reconsider is denied.

CONCLUSION

For the foregoing reasons, we grant Philips motion to vacate the summary judgment entered by this Court on October 5, 1990, dismissing Philip's unfair competition claim against Sears. We deny Izumi's motion for reconsideration.

/s/
Charles P. Kocoras
United States District Judge

Dated: Oct. 13, 1992

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

MISCELLANEOUS DOCKET NO. 361

U.S. PHILIPS CORPORATION and
NORTH AMERICAN PHILIPS CORPORATION,
Plaintiffs-Respondents,

v.

SEARS ROEBUCK & CO. and
IZUMI SEIMITSU KOGYO KABUSHIKI KAISHA,
Defendants-Petitioners

ON PETITION FOR PERMISSION TO APPEAL

Before MAYER, *Circuit Judge*, COWEN, *Senior Circuit Judge*, and SCHALL, *Circuit Judge*.

SCHALL, *Circuit Judge*.

ORDER

Izumi Seimitsu Kogyo Kabushiki Kaisha (Izumi) and Sears Roebuck & Co. (Sears) petition for permission to appeal from certain orders of the United States District Court for the Northern District of Illinois certified for immediate appeal pursuant to 28 U.S.C. § 1292(b), (c)(1) on November 6 1992. U.S. Philips Corporation and North American Philips Corporation (Philips) filed a response stating that they do not oppose the motion, but that they believe that the district court's orders are correct.

This case from the Illinois district court and a related case from a Florida district court have a long and complex procedural history. For purposes of this petition, only the following is

pertinent. Philips sued Windmere Corporation and Izumi in a Florida district court in 1984 for, inter alia, patent infringement, inducement to infringe, and unfair competition under the Lanham Act. Windmere, but not Izumi, counterclaimed against Philips under the antitrust laws. After a jury trial, an appeal, a remand, another trial, and a second appeal, Philips and Windmere settled.[1] On July 31, 1992, this court granted Philips' and Windmere's joint motion to vacate the district court's judgment.

Meanwhile, in 1985 Philips sued Sears and Izumi in the Illinois district court for patent infringement, inducement, and unfair competition. Izumi counterclaimed under the antitrust laws.

The Illinois district court issued various orders over the years concerning whether Izumi was barred from pursuing its antitrust counterclaims in Illinois because it failed to file such a counterclaim in Florida and whether Philips was collaterally estopped from retrying the Lanham Act claims after the Federal Circuit vacated the Florida judgment. In the final analysis, the Illinois district court determined that Izumi was barred from now asserting an antitrust counterclaim and that Philips was not collaterally estopped from retrying the Lanham Act claims. The district court certified its orders and set forth the controlling questions of law:

> In the opinion of this court, these Orders granting Summary Judgment against Izumi's antitrust counterclaims involve questions of law as to which there are substantial grounds for differences of opinion and an immediate appeal from such Order may materially advance the ultimate termination of the present litigation. The specific issues are whether Izumi is barred from pursuing such counterclaims on

[1] Neither Windmere nor Izumi sought appellate review of the jury's $6,500 damages award for infringement.

the basis that such counterclaims were compulsory counterclaims in a previously filed action of *U.S. Philips Company et al. v. Windmere Corp., et al.* which could not be asserted in this action, and whether Izumi has standing to raise these particular antitrust counterclaims.

In the opinion of this Court, this Order reconsidering this Court's prior Summary Judgment against N.A. Philips' unfair competition claims and reinstating those claims involve a controlling question of law as to which there is a substantial ground for difference of opinion, and an immediate appeal from such an Order may materially advance the ultimate termination of this litigation. Such issue involves whether under the law of the 7th Circuit, plaintiff N.A. Philips can be barred under collateral estoppel from again retrying the issue of trade dress infringement in view of the findings of the jury and the judgment of the Court in *U.S. Philips Company et al. v. Windmere Corp., et al*, where the final judgment of the Court was vacated predicated upon a settlement reached between Philips and Windmere.

We agree with the parties and the district court that the orders were appropriate for certifications.[2] The questions of law are not relevant just to the particular facts of the case, but could be of importance to the bar in general. Further, as pointed out by Izumi and Sears, there are conflicting circuit views about these issues and uncertainty regarding Supreme Court precedent. Finally, reviewing these interlocutory appeals will determine with finality which claims will proceed to trial and, thus,

[2] A certified order must involve a controlling question of law as to which there is a substantial difference of opinion and an immediate appeal should materially advance the ultimate termination of the litigation. 28 U.S.C. § 1292(b).

may materially advance the ultimate termination of the litigation.

Accordingly,

IT IS ORDERED THAT:

Izumi and Sears' petition for permission to appeal is granted.

Date: Dec. 10, 1992 FOR THE COURT

/s/
Alvin A. Schall
Circuit Judge

cc: Gary M. Hoffman, Esq.
Sheldon Karon, Esq.